

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF
CITY OF MITCHELL
LAWRENCE COUNTY, INDIANA
January 1, 2009 to December 31, 2009



FILED
11/18/2010

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	George James	01-01-08 to 12-31-11
Mayor	Daniel Terrell	01-01-08 to 12-31-11
President of the Board of Public Works and Safety	Daniel Terrell	01-01-09 to 12-31-10
President of the Common Council	Dwight Moore	01-01-09 to 12-31-10
Superintendent of Utilities	Roger Duncan	01-01-09 to 12-31-10



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF MITCHELL, LAWRENCE COUNTY, INDIANA

We have examined the financial information presented herein of the City of Mitchell (City), for the period of January 1, 2009 to December 31, 2009. The City's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the City for the year ended December 31, 2009, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

August 31, 2010

CITY OF MITCHELL
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2009

	Cash and Investments 01-01-09	Receipts	Disbursements	Cash and Investments 12-31-09
Governmental Funds:				
General	\$ (1,001)	\$ 1,731,978	\$ 1,607,927	\$ 123,050
Motor Vehicle Highway	(93,541)	393,879	315,391	(15,053)
Local Road and Street	(12,443)	4,137	5,211	(13,517)
Park and Recreation	(63,099)	140,569	115,568	(38,098)
Law Enforcement Continuing Education	26,401	4,402	6,353	24,450
Donations	3,065	888	-	3,953
Urban Development	249,679	-	-	249,679
Housing and Rehabilitation	16,398	-	-	16,398
IHCDA Grant	-	89,315	89,314	1
Downtown Revitalization	3,053	-	-	3,053
Transportation	(100,996)	212,651	117,287	(5,632)
Fire Donations	4,503	-	-	4,503
Police D.A.R.E.	4,955	-	-	4,955
Community Development	23,167	-	-	23,167
Police Officer Reserve	5,374	-	-	5,374
Community Day of Caring	9,629	-	-	9,629
Park Community Deposits	2,065	4,552	4,325	2,292
Youth Center	374	-	-	374
Cumulative Capital Improvement	36,503	14,004	25,947	24,560
Cumulative Capital Park	8,017	-	-	8,017
Cumulative Building and Firefighting Equipment	32,919	-	-	32,919
Industrial Park - Construction	71,600	422,308	493,908	-
TIF Redevelopment Bond - Hamilton Blvd.	234,364	356,549	146,853	444,060
Cumulative Capital Development	24,345	-	5,540	18,805
Levy Excess Fund	76,646	-	-	76,646
Proprietary Funds:				
Water Utility - Operating	133,493	2,410,120	2,040,938	502,675
Water Utility - Bond and Interest	210,666	233,686	225,957	218,395
Water Utility - Depreciation	1,950	-	-	1,950
Water Utility - Customer Deposit	50,684	9,531	14,547	45,668
Water Utility - Construction EDA	(18,759)	-	-	(18,759)
Water Utility - Debt Service Reserve	441,254	-	-	441,254
Water Utility - Industrial Park Construction	35,586	82	35,551	117
Wastewater Utility - Operating	433,206	718,375	385,472	766,109
Wastewater Utility - Customer Deposit	30,541	15,829	19,324	27,046
Wastewater Utility - Depreciation	20,000	-	-	20,000
Wastewater Utility - Capital Projects	(100,902)	-	1,136	(102,038)
Wastewater Utility - Reserve	2,611	-	-	2,611
Wastewater Utility - Industrial Park	211,385	541,127	750,158	2,354
Fiduciary Funds:				
Police Officers' Pension	248,362	66,914	113,107	202,169
Cemetery Perpetual Care	75,774	6,750.00	-	82,524
Payroll	(51,889)	1,609,549	1,554,939	2,721
Totals	<u>\$ 2,285,939</u>	<u>\$ 8,987,195</u>	<u>\$ 8,074,753</u>	<u>\$ 3,198,381</u>

The accompanying notes are an integral part of the financial information.

CITY OF MITCHELL
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety (police and fire), highways and streets, culture and recreation, public improvements, planning and zoning, water, wastewater, urban redevelopment and housing, and general administrative services.

Note 2. Fund Accounting

The City uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the City in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the City on or prior to December 31 of the year collected.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

CITY OF MITCHELL
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

Note 7. Subsequent Event

The City received a donation of \$1,300,000 for the City's Hamilton Boulevard industrial park. The receipt was dated January 10, 2010. Of this amount, \$965,000 was applied toward the Sewage Works Promissory Note, Series 2008 and \$335,000 was applied toward the Waterworks Bond Anticipation Note, Series 2008.

CITY OF MITCHELL
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended December 31, 2009

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

General infrastructure assets completed in the current and prior years have been reported. Retroactive reporting of general infrastructure assets will occur by 2010.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 323,918
Infrastructure	141,494
Buildings	1,958,272
Improvements other than buildings	207,021
Machinery and equipment	1,468,056
Construction in progress	<u>148,065</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 4,246,826</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 42,600
Buildings	4,309,776
Improvements other than buildings	2,526,806
Machinery and equipment	478,424
Construction in progress	<u>57,973</u>
 Total Water Utility capital assets	 <u>7,415,579</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	15,140
Buildings	3,724,230
Improvements other than buildings	1,421,415
Machinery and equipment	<u>251,512</u>
 Total Wastewater Utility capital assets	 <u>5,412,297</u>
 Total business-type activities capital assets	 <u>\$ 12,827,876</u>

CITY OF MITCHELL
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
December 31, 2009

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Capital leases:		
Redevelopment commission	\$ 5,724,000	\$ 404,000
Notes and loans payable	<u>18,600</u>	<u>3,600</u>
Total governmental activities debt	<u>\$ 5,742,600</u>	<u>\$ 407,600</u>
Business-type activities:		
Water Utility:		
Revenue bonds:		
Series 2006	\$ 5,260,000	\$ 440,260
State revolving loan	57,973	11,852
Waterworks bond anticipation notes, series 2008	<u>335,000</u>	<u>346,501</u>
Total Water Utility	<u>5,652,973</u>	<u>798,613</u>
Wastewater Utility:		
Capital leases:		
Jet machine	\$ 28,217	\$ 10,342
Revenue bonds:		
Sewage works promissory note, series 2008	<u>965,000</u>	<u>998,129</u>
Total Wastewater Utility	<u>993,217</u>	<u>1,008,471</u>
Total business-type activities debt	<u>\$ 6,646,190</u>	<u>\$ 1,807,084</u>

CITY OF MITCHELL
EXAMINATION RESULTS AND COMMENTS

CONDITION OF RECORDS

Annual Financial Report

The Annual City Financial Report (CTAR-1) presented for examination was not correct. Material adjustments had to be made during the examination to ensure that the financial statements were fairly stated. Some of the errors included fund types being classified incorrectly, and incorrect receipts and disbursements amounts.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Transaction Recording and Bank Reconcilements

The following bank account transactions were not posted to the ledger during the examination period and, therefore, the bank accounts were not reconciled to the ledger.

IHCDA Grant receipts of \$89,315.30 and disbursements of \$89,313.83 were not posted to the ledger. Industrial Park-Construction receipts of \$38,493.04 and disbursements of \$36,857.45 were not posted to the ledger. TIF Redevelopment Bond Hamilton Blvd. receipts of \$189,850.18 were not posted to the ledger. Bond and interest payments of \$656,703.89 were not posted to the Water Bond and Interest Fund.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Customer Deposit Register

As stated in the prior examination, the detailed customer deposit register does not reconcile with the customer deposit amount recorded on the general ledger. The total in the Water and Sewer Customer Deposit detailed ledger is \$936.94 less than the total in the funds ledger.

CITY OF MITCHELL
EXAMINATION RESULTS AND COMMENTS
(Continued)

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

DELINQUENT WASTEWATER ACCOUNTS

Delinquent Wastewater fees and penalties had not been recorded with the County Recorder nor were they certified to the County Auditor which would result in a lien against the property.

IC 36-9-23-33 states in part:

"(b) Except as provided in subsection (l), the officer charged with the collection of fees and penalties assessed under this chapter shall enforce their payment. As often as the officer determines is necessary in a calendar year, the officer shall prepare either of the following:

- (1) A list of the delinquent fees and penalties that are enforceable under this section, which must include the following:
 - (A) The name or names of the owner or owners of each lot or parcel of real property on which fees are delinquent.
 - (B) A description of the premises, as shown by the records of the county auditor.
 - (C) The amount of the delinquent fees, together with the penalty.
- (2) An individual instrument for each lot or parcel of real property on which the fees are delinquent.

(c) The officer shall record a copy of each list or each individual instrument with the county recorder . . .

(e) Using the lists and instruments prepared under subsection (b) and recorded under subsection (c), the officer shall, not later than ten (10) days after the list or each individual instrument is recorded under subsection (c), certify to the county auditor a list of the liens that remain unpaid for collection in the next May. . . ."

COMPENSATION AND BENEFITS

Parks Department pool concession employees received \$7.25 per hour in compensation for 2009. The salary ordinance indicated that concession workers were to be paid \$6.25 per hour.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF MITCHELL
EXAMINATION RESULTS AND COMMENTS
(Continued)

PAYROLL DEDUCTIONS

As stated in prior the examination report, numerous payroll withholding accounts had balances that were not correct. Several errors in posting were made in prior years and these errors had not been identified and corrected.

Payroll deductions were not handled properly. Withholdings for employee uniforms were posted to the uniform withholding account, but the payments for uniforms were not disbursed from the uniform withholding account. Therefore, the uniform withholding account had accumulated a balance of \$1,600.88 on December 31, 2009.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPORTING DOCUMENTATION - CREDIT CARD PURCHASES

During the review of credit card payments, six instances were observed in which claims were not supported by adequate itemized documentation, such as receipts, and invoices. Due to the lack of supporting information, the validity and accountability for some money disbursed could not be established.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COLLECTION OF AMOUNTS DUE

The City was not collecting payments on the cemetery lots sold on contract. Each contract specifies the amount and frequency of payment. The amount due to the City on December 31 2009, was \$23,090.

CITY OF MITCHELL
EXAMINATION RESULTS AND COMMENTS
(Continued)

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OVERDRAWN FUND BALANCES

The following funds were overdrawn as of December 31, 2009:

Fund	2009
Motor Vehicle Highway	\$ 15,053
Local Road and Street	13,517
Park and Recreation	38,098
Transportation	5,632
Water Utility - Construction EDA	18,759
Wastewater Utility - Capital Projects	102,038

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ORDINANCES AND RESOLUTIONS

The City passed ordinance 5-2001 requiring \$25 from the sale of each plot and \$50 from the charge for opening and closing a grave to be put in a Perpetual Care Fund. However, the City posted all of the revenue from the cemetery into the General Fund.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF MITCHELL
EXIT CONFERENCE

The contents of this report were discussed on August 31, 2010, with George James, Clerk-Treasurer; Daniel Terrell, Mayor; and Dwight Moore, President of the Common Council.